

Message Text

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PAGE 01 KUALA 02597 121137Z

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ACTION EA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

PRS-01 EUR-12 /104 W

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R 121020Z MAY 75

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 9847

INFO AMEMBASSY SINGAPORE

C O N F I D E N T I A L KUALA LUMPUR 2597

E.O. 11652: GDS

TAGS: EALR, ENRG, MY

SUBJ: EXXON DECISION TO CEASE PETROLEUM EXPLORATION AND
PRODUCTION WORK IN MALAYSIA PENDING CLARIFICATION OF GOM
INTENTIONS

1. ON MAY 12, EXXON PRODUCTION MALAYSIA PRESIDENT JAMES
WALVOORD CALLED ON AMBASSADOR TO INFORM HIM THAT BEGIN-
NING MAY 13, EXXON PRODUCTION MALAYSIA (THE UPSTREAM
COMPANY) WOULD CEASE ALL EXPLORATION WORK AND ALL NEW
PRODUCTION EXPENDITURES PENDING CLARIFICATION OF GOM
INTENTIONS RE FOREIGN INVESTMENT IN THE PETROLEUM SEC-
TOR. HE STATED THAT A DECISION WOULD BE MADE WITHIN
TEN DAYS WHETHER THE PRODUCTION OFF SABAH (PRESENTLY
FOUR THOUSAND BPD) WOULD CONTINUE OR BE SHUT DOWN.

2. WALVOORD GAVE FOUR BASIC REASONS FOR THE DECISION:
THE PASSAGE OF THE PETROEUM ACT AMENDMENT WHICH THE
PM BROUGHT QUICKLY INTO FULL EFFECT AND WHICH SERIOUSLY
UNDERMINES ANY POSSIBILITY OF DOWN-STREAM INVESTMENT;
THE UNILATERAL TERMINATION BY PETRONAS OF THE CONCES-
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PAGE 02 KUALA 02597 121137Z

SIONS FOR PETROLEUM EXPLORATION AND EXPLOITATION ISSUED
BY THE GOM TO EXXON BEFORE CREATION OF PETRONAS; THE

INSISTENCE BY PETRONAS (ON A NONNEGOTIABLE BASIS) THAT EXXON RETAIN ONLY SEVEN PERCENT OF THE VALUE OF ITS SABAH PRODUCTION AND THAT THE BALANCE BE TURNED OVER TO PETRONAS; AND THE INTENTION OF PETRONAS THAT THE CONTRACTORS DOING PETROLEUM-RELATED WORK FOR EXXON WILL BE OBLIGED TO TAKE ON LOCAL PARTNERS WITHOUT EQUITY PAYMENT.

3. WALVOORD STATED THAT THE DECISION WILL NOT RPT NOT COME AS A SURPRISE TO GOM AS HE INFORMED PETRONAS OF THE DECISION ON WEDNESDAY, MAY 7. WALVOORD IN PERSON WAS INFORMED BY RAZALEIGH'S SECRETARY THAT HE COULD NOT RECEIVE WALVOORD UNTIL MAY 28. HE THEN ATTEMPTED TO SEE PETRONAS DIRECTOR RASTAM HADI WHO SIMILARLY NOT AVAILABLE FOR TWO WEEKS. WALVOORD THEN SUCCEEDED SEEING PETRONAS SECRETARY NIK SIGHIR WHO UNDERTOOK INFORM RAZALEIGH. SIGHIR SUBSEQUENTLY INFORMED WALVOORD THAT RAZALEIGH INFORMED. WALVOORD LATE LAST WEEK ALSO INFORMED PRINCIPAL ECONOMIC ADVISOR TO PM RAJA MOJAR WHO UNDERTOOK TO INFORM PM RAZAK.

4. WALVOORD STATED THAT WHILE HE WILL RETAIN CENTRAL OFFICE STAFF, DECISION WILL HAVE MANY SIDE EFFECTS INCLUDING TERMINATION OF PRODUCTION PLATFORM WORK IN JAPAN, REMOVAL OF DRILL-SHIP FROM MALAYSIAN WATERS, CANCELLATION OF NUMEROUS SERVICE CONTRACTS, CANCELLATION OF PLANS FOR COMMUNICATIONS AND COMPUTER CENTERS, DEPARTURE OF MANY EXPATRIATE STAFF, TERMINATION OF LOCAL STAFF AND CANCELLATION OF RESEARCH AND STUDY CONTRACTS WITH UNIVERSITY PROFESSORS, ETC.

5. WALVOORD STATED THAT EXXON NOT ANGRY AT ANYONE, THAT IT EXPECTS AND HOPES THAT SITUATION WILL BE CLARIFIED IN SATISFACTORY MANNER SO THAT WORK CAN BE RESUMED BUT THAT TO PROCEED WITHOUT CLARIFICATION HAS EFFECT OF WEAKENING EXXON'S HAND AT BARGAINING TABLE. FURTHERMORE, IF GOM DOES NOT WISH EXXON TO PRODUCE OIL ON SATISFACTORY BASIS IN MALAYSIA, EXXON NATURALLY PREFERS TO KNOW BEFORE MAKING ADDITIONAL LARGE INVESTMENT.
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PAGE 03 KUALA 02597 121137Z

MENTS. IN THIS REGARD, PETRONAS INFORMED EXXON THAT DRAFT-PRODUCTION SHARING AGREEMENT WOULD NOT BE AVAILABLE FOR TWO MORE MONTHS AND THAT THREE MONTHS WOULD BE REQUIRED FOR NEGOTIATIONS. EXXON OF VIEW THAT LATTER WILL REQUIRE SIX MONTHS. IN VIEW UNCERTAINTY OF OUTCOME, EXXON COULD NOT ACCEPT THIS TIMETABLE SINCE ADDITIONAL US DOLS 100 MILLION INVESTMENT WOULD HAVE OCCURRED IN FORM OF TWO PRODUCTION PLATFORMS.

6. NEAR TERM LOSS TO MALAYSIA WILL BE 40,000 BPD PRO-

DUCTION OFF PENINSULAR MALAYSIA FOR WHICH TWO PLATFORMS INTENDED. WALVOORD STATED THAT ONCE WORK TEMINATED, APART FROM PERIOD FOR NEGOTIATIONS, ABOUT TWELVE MONTHS REQUIRED TO START OPERATIONS AGAIN. OVER LONGER TERM AT STAKE IS 500,000 BPD WHICH, ACCORDING WALVOORD, EXXON AREA OFF PENINSULAR MALAYSIA WILL SUPPORT. IN THIS REGARD, BECAUSE OF RELATIVELY SHALLOW DEPTH (250 FEET) AND ABSENCE OF TYPHOONS, WALVOORD OF VIEW THAT OTHERS (INCLUDING JAPAN, ITALY, FRANCE) COULD SUCCESSFULLY UNDERTAKE EXPLOITATION, PARTICULARLY SINCE ALL RELEVANT DOCUMENTS HAVE BEEN TURNED OVER TO PETRONAS.

7. IN MORE PHILOSOPHICAL VEIN, WALVOORD NOTED THAT EXXON HAD BEEN BULLISH ON MALAYSIA FOR INVESTMENT, HAD GAMBLERD THAT THE INVESTMENT ENVIRONMENT WOULD CONTINUE TO BE FAVORABLE AND HAD LOST. HE EXPRESSED VIEW THAT EXXON HAD PUSHED AHEAD TOO RAPIDLY AND THAT ONLY COURSE NOW WAS TO RETRENCH TO SEE HOW THINGS SORT OUT. HE NOTED THAT PETROLEUM WAS LARGEST THING ON HORIZON FOR MALAYSIA AND SUGGESTED THAT GOM MAY FEEL THAT CIRCUMSTANCES PROVIDE UNIQUE OPPORTUNITY FOR MALAYSIA TO GAIN FULL CONTROL OF PETROLEUM INDUSTRY WHICH THEY CANNOT LET PASS.

8. COMMENT. TO THE EXTENT THAT A WITHHOLDING BY PRIVATE FOREIGN INVESTORS IS NEEDED TO BRING HOME TO THE GOM THE IMPLICATIONS AND SERIOUSNESS OF THEIR RECENT ACTIONS, THE DECISION BY EXXON TO CEASE EXPLORATION AND PRODUCTION PREPARATION SHOULD SUFFICE. THE DECISION SHOULD ALSO HAVE THE EFFECT OF SPEEDING UP THE CLARIFICATION PROCESS SINCE DELAY IN BRINGING OFFSHORE
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PAGE 04 KUALA 02597 121137Z

PRODUCTION ON STREAM MEANS LOSS OF SUBSTANTIAL INCOME DURING TIME OF PARTICULAR NEED.
UNDERHILL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, PETROLEUM INDUSTRY, POLICIES, EXPLORATORY DRILLING, GOVERNMENT CORPORATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUALA02597
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750165-0739
From: KUALA LUMPUR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750561/aaaacdvpv.tel
Line Count: 154
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 22 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUL 2003 by BoyleJA>; APPROVED <23 JUL 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXXON DECISION TO CEASE PETROLEUM EXPLORATION AND PRODUCTION WORK IN MALAYSIA PENDING CLARIFICATION OF GOM
TAGS: EALR, ENRG, MY, US, EXXON, PETRONAS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006